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Supreme Court of the United States

OCTOBER TERM, 1945.

No. 28

ALPINE MacGREGOR,

Petitioner,

vs.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY,

Respondent.

RESPONDENT'S BRIEF OPPOSING THE PETITION FOR CERTIORARI.

JO. BAILY BROWN,
First National Bank Building,
Pittsburgh, Pa.,
Attorney for Respondent.

BATAVIA TIMES, LAW PRINTERS,
BATAVIA, N. Y.
JOSIAH SMITH CO., PENNSYLVANIA REPRESENTATIVE,
704 SECOND AVENUE, PITTSBURGH, PA.

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Supreme Court of the United States

OCTOBER TERM, 1945.

No. 410.

ALPINE MacGREGOR,

Petitioner,

vs.

WESTINGHOUSE ELECTRIC & MANUFACTURING COMPANY, a corporation,

Respondent.

RESPONDENT'S BRIEF OPPOSING THE PETITION FOR CERTIORARI.

The petition should be denied for any one of the following reasons:

1. The jurisdiction of this Court to review a decision of a state court does not include this case because no constitutional question, or right arising under federal law, is affected by the judgment below.

2. The Supreme Court of Pennsylvania* recognized and properly applied the principle of law laid down by this Court in *Sola v. Jefferson*.

3. The Petition is in effect an attempt to appeal from a decision of the Supreme Court of Pennsylvania applying

* The opinion of the Court below on this point is reported at 350 Pa. 333. All marks of emphasis in quotations are ours unless otherwise noted.

the law of that State to the interpretation and enforcement of a contract between citizens of that state, the judgment rendered merely requiring petitioner to account for and pay money as provided by the contract in suit.

Counterstatement of the Case.

Petitioner, defendant below, while an employee of respondent, Westinghouse, became familiar with the composition and uses of a solder being made, used, and sold by Westinghouse, covered by patent No. 1,651,709,* owned by respondent. Upon leaving Westinghouse, MacGregor commenced the manufacture and sale of a solder of substantially the same characteristics as the patented solder. *Westinghouse promptly sued MacGregor in the United States District Court at Pittsburgh for infringement of its patent. Instead of defending the suit, MacGregor, then represented by the same counsel that represents him here, sought and took the license which is the subject matter of this litigation.* That license provides that MacGregor shall pay a royalty and shall sell the licensed solder at prices no less than those charged for the patented solder by Westinghouse. R. p. 195 a. *MacGregor operated and paid royalties under the license agreement for about four years.* Finding 7, R. p. 242 a. He still claims a license under the contract. See p. 12 below.

Some years after execution of and continuous operation under the license contract, MacGregor put on the market another solder of slightly varied constituents. Westinghouse demanded payment of royalties on this new solder. MacGregor refused, and at the same time decided to stop payment of royalties on the solder that had been the basis of the infringement suit, and upon which royalty had been paid for several years. Findings 8 and 9, R. p. 242 a.

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* The patent expired Dec. 6, 1944.

Westinghouse brought the present suit on the license contract in the Court of Common Pleas of Allegheny County, Pennsylvania, in which County both parties are residents. The sole prayer of the bill is that defendant be required to account for and pay the royalty due under the contract. R. pp. 8-9 a. MacGregor by way of defense pleads that the two solders above referred to do not come under the patent, that the licensed patent is invalid, and that the contract is unenforceable because it *contains* a clause requiring MacGregor to maintain licensor's prices on the patented solder. He also counterclaims to recover royalties paid "by mistake", and for unspecified damages under the Sherman Act. R. p. 20 a.

The case was tried at law, without a jury, the facts being found specially by request of the parties. Defendant offered and the Trial Court received evidence to limit the construction of the licensed patent, but refused to receive evidence offered to attack its validity, on the ground that a licensee is estopped to contest validity of the licensed patent. It found as facts and conclusions of law that both defendant's solders above referred to come within the scope of the patent, and therefore under the license agreement. R. p. 267 a. It held that the price maintenance clauses of the contract were immaterial to the case before the Court, because no part of the suit was based thereon, and further that even if the price maintenance clauses were invalid under Federal law, they were severable under Pennsylvania law, and even if illegal, would not vitiate the legal clauses of the contract, and would not prevent plaintiff collecting the royalty due. It found the counterclaim without merit. It ordered an accounting to determine the amount of licensed product that had been made and sold by defendant and upon which royalty had not been paid.

The Supreme Court of Pennsylvania affirmed the Trial Court in all respects, remanding the case for an accounting. See 350 Pa. 333.

Petition for certiorari to this Court was refused for lack of a final decree.

Defendant-petitioner in the Trial Court then admitted a liability of $15485.96 under the contract if enforceable, and appealed to the Pennsylvania Supreme Court, which stood on its former decision.

Jurisdiction is Lacking.

Petitioner invokes jurisdiction under the provisions of 28 U. S. C. 344 (b), Judicial Code 237. As we understand that statute, this Court's jurisdiction to review the judgment of a state court extends only to cases where the decision of the highest state court (1) involves the validity of a treaty or statute of the United States, or (2) the validity of a state statute asserted to be contrary to the constitution, treaties, or laws of the United States, or where (3) a right is specially set up and claimed under the Constitution or federal laws.

The present case does not fall within any of those statutory provisions.

Petitioner's brief at page 13 cites seven cases as sustaining jurisdiction in this case. None of them arise under facts similar to those here involved. Taking up the cited cases in order, *Palmer v. Brown*, 297 U. S. 227, is a *bankruptcy* case construing the Federal Bankruptcy Act. In *Minnie v. Port Huron*, 295 U. S. 647, the question was whether *maritime law* or a state compensation law applied to an accident occurring on navigable waters. It was held that the maritime law governed. *Noble v. Okla-*

homa, 297 U. S. 481, involved construction of the *Federal Land Grant Statutes*. In *Gilvary v. Cuyahoga*, 292 U. S. 57, the question was whether the *Federal Safety Appliances Act* controlled in a state court suit for personal injuries incurred on an interstate carrier. *Penn v. Pennsylvania*, 294 U. S. 189 was based on a conflict of receivers for the same party appointed by State and Federal Courts. *Vulcan v. Maytag*, 293 U. S. 553, is merely a memorandum granting certiorari and contains no discussion or decision of law.

Fox v. Muller, 296 U. S. 207, is the only one of the group of cases cited to sustain jurisdiction, that has any real bearing upon the question of jurisdiction in this case. *It in effect puts the present petitioner out of court, upon the basis of his own argument.* The cited case relates to the severability of an illegal arbitration clause in a contract. The question was whether that illegal clause made the entire contract unenforceable. This Court held that on the question of severability the decision of the State Court was controlling, because the question of severability of an illegal portion of a contract is one of general law. Applying that authority to the present case, and considering the statement in petitioner's brief at page 7, second paragraph, it seems that the petition should be denied upon petitioner's own statement.*

The burden to show jurisdiction is on petitioner.

Gorman v. Washington, 316 U. S. 98, 101.

The jurisdiction of this Court to review decisions of the highest court of a state is statutory and exists only when the case falls clearly within the statutory provisions.

Roller v. Murray, 234 U. S. 738;
Waters Pierce v. Texas, 212 U. S. 86;
Citizens Bank v. Opperman, 249 U. S. 448.

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* See further discussion of this case as an addendum, page 18 below.

No Federal Question is involved in the Decision Below.

The plaintiff merely seeks to enforce payments provided by a contract between two citizens of Pennsylvania. In effect it seeks to collect a debt. No other issue was raised by plaintiff. See the Statement of Claim at R. p. 9 a.

Petitioner, *purely as a matter of defense, to avoid payment of royalties,* attempts to attack validity of the patent, and enforceability of the contract, because a price-fixing clause, not in suit, was included in the license contract as originally drawn, with his knowledge and approval.

The Court below held that under Pennsylvania law a licensee is estopped to attack validity of a patent under which he holds a license. It also held that since the price-fixing clause of the license was not asserted or relied upon by plaintiff, the legality of that clause under federal law is a moot question which the state court had no reason to consider. See opinion below. R. p. 16b.

The Trial Court (which was affirmed in all respects on appeal) held as a conclusion of law (R. p. 268a and 314a) that even if the price-fixing clauses were *per se* illegal (as violating federal law), they were separable, and could be excluded under "The Blue Pencil Rule", as had been done by the Supreme Court of Pennsylvania in construing other contracts involving restraint of trade (illegal under federal law) between citizens of Pennsylvania, citing *Smiths Appeal*, 113 Pa. 579, and *Monongahela v. Jutte*, 210 Pa. 288.

This Court has repeatedly held that it is essential to its jurisdiction in reviewing a decision of a state court that it must affirmatively appear from the record, not only that a federal question was presented for decision, but that the decision of the federal question was necessary to the deter-

mination of the cause, that the federal question was actually decided, or that the judgment as rendered could not have been given without deciding it.

Southwestern Telephone Company v. Oklahoma, 303 U. S. 206, 212;
Lynch v. People of N. Y., 293 U. S. 52.

Decisions of state courts based on local laws, not involving federal questions, are not reviewable by this Court.

Campbell v. Olney, 262 U. S. 352, 43 S. Ct. 559;
Fox vs. Muller, supra.

This Court has no jurisdiction unless a real and not a frivolous federal question is involved. Mere assertion of some right under federal law is not sufficient.

U. S. Fidelity v. Oklahoma, 250 U. S. 111, 39 S. Ct. 399.

Save in exceptional circumstances, this Court accepts as controlling a decision of the state court on questions of local law, both statutory and common.

Fox vs. Muller, supra;
American Express v. Kentucky, 273 U. S. 269, 47 S. Ct. 353.

A suit on a contract of which a patent is the subject matter, either to enforce such contract or to annul it, where the decision of a state court is based upon the contract, does not present a federal question.

Dale v. Hyatt, 125 U. S. 46, 8 S. Ct. 756;
Felix v. Scharnweber, 125 U. S. 54, 8 S. Ct. 759;
Wood v. Skinner, 139 U. S. 293, 11 S. Ct. 528.

The decision of the state court below in refusing to permit an attack upon validity of the licensed patent, was based upon *estoppel* under the general law of contracts as construed in Pennsylvania by its Supreme Court. Since the

price-fixing clauses of the license contract were not in suit, and were not contrary to the state law, their legality was a moot question, and there was no reason for the Court to consider their legality. Not doing so raises no federal question.

The law is clearly established that a decision of a state court based upon an estoppel does not present a federal question.

See:

Adams County v. Burlington, 112 U. S. 123, 5 S. Ct. 77;

Israel v. Arthur, 152 U. S. 355, 14 S. Ct. 583.

In *Speed v. McCarthy*, 181 U. S. 269, 21 S. Ct. 613, this Court said—

"Whether a party is estopped or not is not a federal question."

Obviously the *Sola* case could make estoppel in a state court a federal question only if, as in that case, *estoppel permitted the enforcement of a provision violating federal law*. No such case arises here.

The Sola case does Not Create for Defendant a Right to Attack Validity of a Licensed Patent.

An exception to the rule in federal courts that a licensee is estopped to attack validity of the licensed patent may arise under the decision of this Court in *Sola Electric Company v. Jefferson Electric Co.*, 317 U. S. 173, 63 S. Ct. 172.

Petitioner seems to think the *Sola* decision *creates* some new personal federal *right* for a licensee-defendant, analogous to the right to trial by jury, etc. We submit that it merely declares the law that estoppels under local (state) law

cannot screen and protect violation of a federal law. We take it to be obvious that a decision of this Court does not and could not remove any estoppel arising under local law except such as would permit violation or prevent enforcement of a federal law.

It appears from the opinions in the *Sola* cases that Sola agreed to maintain the prices established by Jefferson for its sale of the patented products as well as to pay royalty on the licensed products. After having operated under the license for some time, Sola refused to pay royalty on certain of the licensed products and refused to maintain licensor's established prices on those products, because, it asserted, the only claims of the patent covering those certain products had been held invalid by the Sixth Circuit Court of Appeals. Jefferson then sued Sola in the federal Court to recover the royalties withheld, and *also for an injunction restraining Sola from selling licensed products at prices below those established by the licensor.* The Seventh Circuit Court of Appeals (125 F. (2d) 322) held that Sola was estopped to deny validity of any claims of the licensed patent so long as it retained a license under the patent, ordered it to pay the accrued royalties, *and enjoined it from violation of the price-fixing clause of the contract.*

The case was brought here and reversed.

Petitioner urges the *Sola* decision of this Court as broadly giving a licensee sued for royalties the *right* to attack validity of the licensed patent, if there is a price-fixing clause in the license agreement, regardless of whether enforcement of the price-fixing clause is involved in the litigation. Our position is that the Sola case goes no further than to give to a licensee the right *to defend against enforcement of a price-fixing clause* by challenging validity

of the licensed patent because *enforcement of the price-fixing clause would be contrary to federal law if the patent were invalid.* We think the decision must be so interpreted and restricted because that was the actual case before this Court.

That the price-fixing clause in the Sola case was directly in issue appears clearly from this Court's statement of the case. See the first paragraph of the opinion:

> *"The question for our decision is whether a patent licensee, by virtue of his license agreement, is estopped to* CHALLENGE A PRICE-FIXING CLAUSE *in the agreement by showing that the patent is invalid,* and that the price restriction is accordingly unlawful because not protected by the patent monopoly."

Note the last sentence of the second paragraph of this Court's opinion.

> "Respondent sought recovery of unpaid royalties *and also an injunction restraining further sales except in conformity to the terms of the license agreement."*

In the present case the legality and enforceability of the price-fixing clauses under federal law is moot in the state court since no enforcement thereof is sought. Consequently no federal question was presented to the State Court, or decided by it, in holding defendant liable for payment of agreed royalties.

Petitioner cites *Chicago v. Katzinger*, 139 F. (2d) 291 and *American vs. New Jersey*, 50 F. Supp. 806 to support his construction of the Sola case. Those are lower federal Court cases and not controlling under the facts and circumstances of their State court case.

The Sola case has been discussed and applied by the Second Circuit Court of Appeals in *Nachman v. Kay*, 139 F. (2d) 781. In that case defendant in settlement of litigation agreed by written contract to acknowledge the validity

of a patent, to discontinue the manufacture and sale of any devices that would infringe the patent, not thereafter to make any article coming under the patent, and not to contest validity of the patent if sued. Defendant later made articles that came under the patent, and was sued. The lower court enforced the contract in all its terms. The Second Circuit Court of Appeals reversed the lower court, holding that such a contract could be valid under federal law only if the patent were valid, and that validity would therefore have to be considered.

Referring to the *Sola* case the Court said—

> "But the rationale of the opinion is that there can be no valid estoppel to deny the validity of a patent *if the estoppel will result in a contravention of Federal Anti-Trust Laws.*"

That construction of the Sola case by the Second Circuit Court of Appeals, as we understand it, is the one accepted and applied by the Supreme Court of Pennsylvania. Since granting the full relief asked by respondent in this State Court case does not require anything directly or indirectly forbidden by the Federal Anti-Trust Laws, the Sola case does not apply.

The Price-Fixing Clauses are Prima Facie Legal.

Petitioner's brief argues at pages 18-22 that the licensed patent is *prima facie* invalid. We need not answer that argument here. If pertinent it must go back to the trial court. It has been held that any patent duly issued by the United States Patent Office is presumed to be valid until the contrary is made to appear by competent evidence. That we assume will be the position of this court. We know of no decision to the contrary, and petitioner cites none.

Kokomo v. Kitselman, 189 U. S. 8, 23;
American v. DeGrasse, 157 F. R. 660, 663.

No case holds it illegal *per se* to include in a patent license a requirement that licensee shall not sell the licensed product at prices less than those charged by the licensor for its patented product. As we understand it, such clauses are *prima facie* legal.

U. S. v. General Electric, 272 U. S. 476.

The Price-Fixing clauses were entered into in Good Faith.

There can be no question about the good faith of the price-fixing clause in the present license agreement. There is no basis in the pleadings or findings for any charge of *conspiracy* to restrain trade or for the charge of fraud with which the petition concludes. The only parties to the license agreement are the parties to this suit, and petitioner clings to his rights under the license, as shown by our next paragraph.

Petitioner Still Asserts the License as Legal and Effective.

Petitioner, MacGregor, testifying *pro se*, under cross-examination, in effect repudiated any attack on the legality of the license agreement and validity of the patent by specifically recognizing his then existing and future right to make, and obligation to pay royalty on, any solder "properly covered" by the Jones patent. See the Trial Court's finding 12 at R. p. 243 a. For the convenience of the Court we quote his testimony on this point from R. pp. 144-5 a:

"XQ. You and your counsel decided to take the license, and you did take the license? A. Yes, sir.

"XQ. You still have that license in effect? A. That's right.

"XQ. And you have made the phos-copper solder without any other ingredient, and paid a royalty on that under that license? A. That's right.

"XQ. And if you made any tomorrow, you would pay a royalty under that license? A. *Yes, sir.*

"XQ. You regard the license as still in force and effect? A. *I regard the license as still in force and effect under advice from Mr. Jaspert, as applying to the phos-copper alloy alone.*

"XQ. In other words, you regard the license as still in force and effect as covering anything that properly comes under the Jones Patent, do you not? A. *That properly comes under the Jones Patent, yes, sir."*

That position of defendant, as we see it, eliminated further attack on the legality and enforceability of the license contract. Obviously, petitioner accepts the license as legal in spite of the inclusion of a price-fixing clause,—except for the purpose of defense to payment of royalties on certain solders which he maintains do not come within the claims of the patent.

Petitioner's "Statement of Questions Involved" is Incorrect in its indication of the Decision Below.

Petitioner's "Statement of Questions Involved" in its Appendix indicates (page 11, "1.") that the Supreme Court of Pennsylvania held it proper to give to a patent a scope inconsistent with its disclosure and to cover subject matter disclaimed by the patentee. *The Court below held no such thing.* It received all the evidence petitioner offered to show the proper scope of the patent, including the file history and all the prior art offered by petitioner. Then it held petitioner's products within the scope of the patent. *That was a decision on the merits.* As to disclaimer by the patentee, the file history in which the alleged disclaimer arose was received in evidence and considered by the Court. Petitioner's contention of disclaimer was heard and rejected. *That decision was on the merits*, and presents no reviewable question for this Court.

Petitioner also says (page 11, "2.") that the Supreme Court of Pennsylvania held that a defendant is not permitted to show that the patent under which he is licensed can not be construed to cover the article for which plaintiff seeks an accounting. *The Court below made no such ruling or decision, directly or indirectly.* On the contrary all of the prior art patents and publications offered to limit the scope of the patent were received, without objection, and were discussed by the Trial Court for that purpose. See R. pp. 244-6 a. The decision was against defendant-petitioner *on the merits*, not on the broad law point now asserted.

Petitioner's "Reasons for Allowance of the Writ" are Not well Founded.

Answering this part of the Petition (pp. 8-9) respondent's position is as follows:

"I." There is no conflict between the decision of the Supreme Court of Pennsylvania and this Court's decision in the *Sola* case. It appears from the statement in the decision below at R. p. 17b, that the *Supreme Court of Pennsylvania accepts the law as laid down in the Sola case*, but finds it not applicable to the instant case.

"II." It is immaterial whether there is conflict of decision between the Pennsylvania Supreme Court in this case and the U. S. Seventh Circuit Court of Appeals' decision in the case of *Chicago v. Katzinger*, 139 F. (2d) 291. The Pennsylvania Court interprets the *Sola* case as not calling on it, under Pennsylvania law of contract construction, to decide whether enforcing a clause of the contract that it is not asked to enforce, would result in violation of a federal law. It held the price maintenance clauses severable, even if illegal under federal law. In so doing it followed estab-

lished precedents of its own prior decisions, as well as federal court decisions. Under that decision *Fox v. Mulloy, supra,* is directly in point.

"III." The Supreme Court of Pennsylvania has not decided any "federal question," in the sense of the jurisdictional statute, in the instant case. It has merely applied an existing contract to the facts of a case brought in Pennsylvania Courts between Pennsylvania citizens. That defendant sought to avoid his contractual obligations by asserting a defense and counterclaim based (as mere conclusions of the pleader) on federal law does not bring the case within the jurisdictional statute for review by this Court. The statute requires that a federal law be *necessarily* involved, and *necessarily decided* to support the judgment rendered.

The Waiver Telegram is Immaterial.

At page 16 of his brief, petitioner in a footnote quotes a telegram from respondent, arguing from it that respondent must agree with petitioner's views on the illegality of the price-fixing clauses of the license contract—because it has waived enforcement of them.

This is not proper argument or a valid conclusion. The alleged telegram is not in the record, and was not before the Courts below. Obviously petitioner has no right to inject new matter arising after trial into the case at this stage, or to base any argument on it. But even had the alleged waiver been sent before the trial, and received in evidence, it would have made no difference to the issues being tried. Respondent had in legal effect waived the price fixing clause when it brought suit on the contract without asking that defendant be required to respect the

price-maintenance clause, or pay damages for its previous breach. Before suit was filed MacGregor had refused to be bound by the price-fixing clause, for some products, at least. See opinion below at R. p. 16b and MacGregor's testimony at R. p. 158 a.

Petitioner's "Conclusion" is Unfounded.

At page 27 of his brief, petitioner says the instant suit involves "a fraud upon petitioner and the public". Such an extravagant statement is meaningless when one considers that the only issue here involved is payment of royalties as provided by a contract between these parties. There is no evidence whatever of any "premeditated scheme to deprive petitioner of his rights to the enjoyment of free enterprise and trade and to destroy a competitor" and no pleading to that effect. Whatever "scheme" existed or exists is by agreement and with the full cooperation of petitioner, since the only thing involved is a contract between the parties to this action. Petitioner was sued in the United States District Court under a straight patent infringement bill. *He was then in court with every opportunity to attack validity and show non-infringement.* He preferred to take a license. After operating as a licensee some four years, he decided to discontinue the payments he had agreed to make. Respondent sued in the state court on the contract. It could not then sue for infringement because petitioner has a license to make any product covered by the patent. It had to sue in the state court, because the parties are citizens and residents of the same county and state. It is absurd to charge fraud under such facts.

Conclusion.

Respondent submits that there is no jurisdiction for review of this state court case, because no federal question is involved in the decision below. Aside from that, enough appears from the petition and from the opinions below to show that petitioner has no case on the merits. The petition should be denied from any point of view.

Respectfully submitted,

JO. BAILY BROWN,
Counsel for Respondent,
First National Bank Building,
Pittsburgh, Penna.

ADDENDUM.

In *Fox v. Muller*, 296 U. S. 207, this Court held that it had no jurisdiction to review a decision of the Supreme Court of Minnesota where petitioner's case depended upon the severability of an illegal arbitration clause that had been held by the state court to be unseverable and therefore to void the entire contract. On that point this Court said:

> "Whether the provisions of a contract are non-severable, so that if one be held invalid the others must fall with it, *is clearly a question of general and not of federal law.* * * * In that situation, the primary question to be determined by the court below was whether the concededly invalid clause was separable from the other provisions of the contract. *The ruling of the state Supreme Court that it was not, is sufficient to conclude the case without regard to the determination, if, in fact, any was made, in respect of the federal question.* * * The construction put upon the contracts did not constitute a preliminary step which simply had the effect of bringing forward for determination the federal question, but *was a decision which automatically took the federal question out of the case if otherwise it would be there.*"

Since in the case at bar the Pennsylvania Supreme Court held the price-fixing clauses severable, their legality moot, and so disposed of the case without passing upon any federal question, this case falls within the law of the Fox case.